

Cepiaglobal Futures Report

Premium Newsletter Service for the Impacts of Politics, Economics, Society, and Culture

The Cepia Club LLC's Paper Series #7

January 8-22, 2008

Why Read?

Cepiaglobal Futures Background in Project 6

Since 1994, before The Cepia Club became a business (and in 2007 an Limited Liability Company), the “cepia” idea was founded on the basis of a research and development project for raising political, economic, social and cultural “awareness” in the general public who would suffer the soft **ignorance** of not having ideas of world importance available to them. But awareness was useless in WE THE PEOPLE who hold real potential power to take control of liberty, freedom and truth. To bring the world a sane, MORE peaceful and prosperous system for ALL, The apathy must end in reasons, causes, and practical methods for activism.

For 13 years, The Cepia Club has conducted under **Project 6: Cepia Games and Theory**, collection, archiving, examination, discussion, analysis, model building, simulation game development and exercises, and testing of hundreds of thousands of pages of source materials, thousands of pages of summaries, monograph-length collections, and extracts, in tens of thousands of collaborative man hours. So very little of the analysis, conjectures, and conclusions (estimated at less than 10%) has been shared or published outside of our smaller circle of primary collaborators.

Now in 2008, the time has come for growth of The Cepia

About Cepiaglobal Futures Report

Cepiaglobal Futures Report is a premium subscription periodic newsletter for the Associated Profile Program of **The Cepia Club LLC**, 411 Fourth Street, P.O. Box 214, Centuria, WI 54824, www.cepiaclub.com, 715-646-9933. It is a service for individuals, businesses, and other organizations for political, social and cultural forecasting of past, current and future events and ideas that have and will in the future impact the economics of local, regional, global — and beyond—systems that effect the security and livelihood of families and businesses everywhere. The Cepia Club LLC offers this forecasting as speculative analysis, and not advice, and disclaims any responsibility for any action or results of action by anyone based on the contents of this newsletter.

Copyright © 2008
The Cepia Club LLC

All Rights
Reserved

Assure that you receive one year's worth of *Cepiaglobal Futures Report*. Subscribe to the The Cepia Club LLC's Associated Profile Program as the only guarantee to read it. Other APP benefits and advantages available. Special introductory offer of

Club LLC. The time has also arrived to utilize the skills, experience, and track record of our in-house forecasting.

For premium goods and services pursuing empowered liberty, family economics, social development, and community connectivity, The Cepia Club Paper Series is now officially **Cepiaglobal Futures Report**. It is available as a subscription for individuals and groups who need alternative ideas, information and perspectives for personal, business, institutional or local reasons.

Silk Road Super-Highways:

Wealth Funds, Subprime and Currency

Do Dots Connect for Shift?

What Is Wrong? Why Is It Important?

After looking at the storefront geography of certain high-growth, local communities throughout 2005, in Winter 2005-2006 we began to privately advise Club Friends who planned on becoming real estate agents. Some of the grateful took our advice from what we could plainly see: Just too many real estate business. A May 2006 Harper's magazine "Portfolio" article (available in our Club Archives) called "The New Road to Serfdom: An illustrated guide to the coming real estate collapse" by Michael Hudson (with Information graphics by Nigel Holmes) is perhaps the earliest quantified research we had seen on our suspicion. Property tax assessment increases from 2002-2006 were also quite convincing that something unsustainable would shortly implode the market for boom housing.

As The Cepia Club and the rest of the world discovered from spring 2007 onward, the complicated financial arrangements of at risk homeowner mortgage instruments proved disastrous. The market forces of currency, inflation, and central bank interest rates adjusted. Worse, a shift in the economy weakened spending on houses, and house values fell. The subprime loan news for the US gets worse. Banks and financiers in the US and Europe collected the loans in bundles and then resold them into investment markets as high-yield return instruments. Now, in [mid-January] 2008 hundreds of billions of dollars of investment in these "rich can get richer schemes" of bundled loan-bonds, if not a couple of trillion dollars eventually, are "junk" status.

Theoretically, the risk should have been spread. Inevitable interest-rate increases to slow overheating economy and inflation pressures should have posed manageable risk to the overall economy. Under market capitalism economics, catastrophic hits to entire economy should not happen. The original loans to normally unqualified homeowners were made under low interest rates that would float up or down with the Federal Reserve interest. Spreading bundles of loans in new "legal" things called SUVs and CDOs among American and European investors was supposedly the balancing mechanism that would work like a hedge fund or derivative. Some investors would bet one way and others the other way. Some would lose, but the others would win. The balance sheets SHOULD have come out even. Then, however, a near-perfect storm interfered with traditional investment, banking and finance.

Was there risk? Of course. There always is when it comes to investing. A weaker economy; less wage growth; less family cash; less valuable homes; weaker dollar; higher rates; and higher mortgage payments—all of these combined for that near-perfect storm. It has few parallels in the short, 300 years of market capitalism. Some examples of scale are possible. Overall, though, the present, and even the past forms, of globalization were not and are not properly understood. The sub-prime crisis scares Wall Street and government economists. Average people do not bother to listen closely enough, but these informed leaders worry very, very much if one reads the right news. The underlying reason for the Category 6 hurricane that could sweep the world tails an historical trend thousand of years in the making. Why this storm is happening was little understood beforehand because past and current globalization has few reliable models. What we offer here is one such framework for understanding the phenomenon, and it might lead to a later solution.

The crisis facing the US and Europe is real, apparent, and dangerous, not only the extent that we can not afford “mansionettes,” three SUVs, a Hummer, 4 All Terrain Vehicles, cable television, and designer clothes. The danger is the shift expected for the last 50 years from a Euro-Western/Christian world paradigm to an Asia world-view and the “Pacific Century.” This is mis-named, since it could be an Asian millennium where it rested until the rise of the Hellenic Mediterranean and European world in the 5th - 2nd Centuries before Christ, and stayed until the Renaissance and Reformation 2000 years later. The consequences for this shift are profound. It not only affects prosperity in the United States, it directly affects the “prime directive” of national security: The continued sovereignty and independence of the first American republic and our Constitution-based form of government. The very legitimacy of that government—arising from the consent of the governed (WE THE PEOPLE OF THE UNITED STATES OF AMERICA)—because of this potential financial crisis, is in direct collision with the forces of elitism and wealth and their tyranny as a minority as the few will profit at the expense of the many from the possible collapse of America’s economic supremacy.

How Did Globalization Really Start?

Obviously part of the US/European financial crisis is due to predatory banks offering “cheap” credit to lenders who were at risk and uninformed. Either the lenders did not know about or disregarded the globalization shift and how it would affect them. After all, more people getting loans, more interest to earned. More interest, then bigger returns on interests the more the loans were gathered together in massed securities. Bigger securities, more investors who buy. More investments with bigger gains, bigger profits for them. Like all investments, the economy must grow to support it. The great fear became reality, though. The top of the market food chain did grow in the US from 2002 to 2006, but the foundations of history slipped past us.

Globalization as we have known it since the mid-1990s works in very simple ways. It works like the first globalization that brought silks, spices, specie, and people along the Silk Road from Asia to Europe during the time of ancient Egypt, Greece and Rome.

Cheaper labor reduces costs of goods sold more than anything. And the closer the bulk resources to the centers of labor (manufacture) are cheaper to exploit. Finished products shipped to markets that need or want (or are forced to accept) the products increase sales. Capital in the form of investment goes where these aspects maximum returns. Capital (money) is concentrated and through our internet is moveable at the speed of light—far faster than camels of the old Silk Road. And, as the bottom lines go, labor is harder to migrate across any number of geographic or cultural boundaries, and even psychological barriers. But consumption, in almost unlimited forms, happens everywhere people find themselves.

Thus it has always been, from the Yangtze River of China to Persia; from Phoenecia to Athens, from Scythia to Rome, to Venice, to New York, and now from Seattle to Shanghai— where the Silk Road trade began. And from when it began, raw materials (gold, silk clothe, spices, and people) moved West. Value-

added products moved back east. But the profits returned West, and in turn, excess investment moved to new places—further West. In over 5000 years of human history, in looking at human geography and mass movements, civilization follows after the geography of trade, and back-end trade settles where the profits of trade are returned, where the people eventually want to go. The crux, though, comes when new investment goes where there is the highest return.

In history, old centers of power were left behind the flow of investment. They gain excess people. Then those regions withered into political and intellectual stagnation. Then comes economic scarcity as the resources are used. (The city of Rome ran out of firewood). These regions and their people were left behind when the centers of power in investment moved further east. They may still have been rich in many ways, in “old” money, but the ones in whom they invested for higher profits (more exploitable resources, cheaper labor) were growing richer and more powerful by the same process. Never forget the maxims of investment: The highest long-term returns are mostly found where more accessible raw materials and cheap labor exist to build from scratch.

Globalization is not new. It has always existed. Xerxes' invasion of Greece. Alric's sweep through Europe. Brutal Mongol swarms. European colonization to the Americas (and the slavery and genocide of the New World as happened in the Old Worlds during their globalization).

Globalized movements of trade, money and then people, happen a whole lot faster in the accelerated world of mass communications and faster transport. Ease of information and physical movement facilitate the path globalization has taken. Like with great political and social scandals, follow the money. But why did the money flow West? There is perhaps no other reason why this “to the West” historical movement occurred, other than Gross Domestic Product potential (“GDP”, or “economic” potential), physical geography, and demographics. These Strategic Destinies determine the fate of power and wealth in the world.

We have examined the economic aspect. What about the geography demographics?

It was easier to travel the land with horses than find the money to invest in the technology to build the fleets to move Asia's trade and its mass of humanity across the Pacific. Always more populated, Asia needed to find ways to support more people than it could sustain on its own. Follow the money. You can buy or steal food from neighbors. Also, when there is famine or hardship or GDP scarcity, people look for it. In this context, a theoretical land bridge in neo-Lithic times perhaps being a sole exception that proves a general rule. One dollar land by land, or a fifty foot ship by sea.

Europeans did go to the East to conquer Asia, in large and small parts, in the 19th Century. Steam ship and the Suez Canal made the effort economical and faster, by sea. Steam, coal and iron also made minimal migration from Asia possible toward the east to America, but not massive financial flows or “fall of Rome”-like masses of people. What did not follow the European navies and armies was the financial migration east. The age of modern imperialism further exploited, exported, and exhausted the GDP margins of capital profit of the east into the Western world of powers. They were successful because the global transfers of wealth (and smart people with the ideas) gave the Europeans 2000 years of advantage to make more steel and make more guns. (Jared Diamond is right in one sense, but GDP potential that becomes reality is required to make it). (Until the settlement of the Far Southwest the West Coast following the Mexican War, Yankee traders used the winds of the Atlantic and Indian Oceans to reach such far places as Shanghai, Singapore, Jakarta, and later Hong Kong).

When Europeans had built on the investments in the manufacture of goods in the West, that they traded with the East for profit, they had the perfect storm for their greatness, similar to China and Rome before them. Strategic Destinies combined to give them the advantages of their globalization. The wealth of Europe developed from the ideas and science of others, their own Renaissance, and the industrial era gave rise to the global wars of Europe between 1754 and 1945.

World War II was the death bell of Europe as the major center of world power. It brought the latent potential of America's military dominance to life based on the financial migration that followed Columbus from Europe in 1492. Columbus and the others, chasing Marco Polo's memoirs from the other direction, proved the world was round. Instead of going East, a theory of physical geography thought it was easier and less risky to sail the western ocean to Asia. They found something in between instead. Globalization, following the Strategic Destinies, made its way to America

After the defeat of the Nazis in Europe, Europe grew progressive in outlook and politics, but the structure of its once dynamic and evolving development stagnated. Globalization was leaving them behind in the pattern. Eventually, it might leave Europe as some prey of modern colonialism, as has been the pattern. For now, as the model develops political reordering grew a cautious culture, and Europe's history became a classic "realpolitik" reaction-resistance to change to keep with false hope what destiny could steal anyway. That is the pattern.

The "great transfer" from Europe to America in the 19th Century is now passing from America to Asia, where globalization started. The United States since before independence traded with the East. After defeating the Nazis, and holding Fulda Gap against the Soviets in Europe, America's active focus on foreign, security and economic policy flowed West across the vast Pacific during the Cold War. World War II's shipbuilding program and US GDP output facilitated immense trans-ocean avenues of trade with Asia. But World War II did more. It unleashed the political forces that dynamized Asia's primitive pastoral culture. Global war in the mid-20th Century unleashed the revolutions, the rebellions, the re-orderings, and in the end, the reforms, that connected the people of Asia to the return of the globalization cycle.

In Indonesia, China, Korea, Vietnam, then back to China, US connections to Asia boomed. The traditional West of Europe stood still, kept confined by a wall. Like China's Great Wall, the walls dividing Europe kept invasions from coming East. Trade, in the form of raw materials (fossil fuels, ores, gems and people), still flowed West. The finished products still went East, and the profits-capital and returns, kept pushing West: Toward Asia. (North, from Africa and Latin America, is the equivalent of West. South is also East).

[The above was completed by January 15, 2008, in anticipation of a January 30th publication. The events of January 21-22 in world financial and stock markets require an abbreviated section to follow for a sooner-than-planned publication].

Breakdown of the Current Crisis and of Things to Come'

January 22, 2008, Tuesday, 6:38 AM-9:30 AM

The panic stock market events gripping Asian and European markets the last two days as of this writing indicates the connection between the US-centered credit finance crisis and world-wide securities flows. In less than three hours, the US stocks and commodities exchanges will open, having been closed Monday due to a national holiday. The key connection between the scarcity of credit in the US and world financial flows have been nurtured by market forces and governmental policies world-wide by these dominant connections:

- The US dollar as the global medium of current account exchange since 1942 under a relatively stable interest rate for most of the last 15 years;
- a low tax to high spend policy of the Federal Government;
- controlling inflation (excess lower value dollars in circulation) via issue of low-yield, medium-term US Treasury securities (restricting money in public circulation with interest return to buyers/holders) for government expenditure (waste);

- selling nearly half the Federal debt of \$9 trillion to foreign investors, including governments;
- high growth in the market value of corporate stocks benefitting from indirect investment return overseas, mostly in Asia;
- a trade deficit counter-acted by current account flow dollars coming back in the form of investment in US debt instruments.

In 2007, fall in the market price of land with a slowing of US Gross Domestic Product (GDP) growth met financial disaster with the falling value of the dollar against foreign currencies. The “cold front” of the falling dollar in currency trading met the “low pressure” area of increasing inflation, inflation due to a sky-rocketing price increase in energy supplies. Forecasters and economist played to the public a “don’t worry” attitude because “core inflation,” the rise of consumer prices for non-energy items (food, clothing, etc.) had not risen above “danger” levels of inflation. It was spin of the worst kind to a public not suspecting its own future at stake. A tornadic effect happened with the dollar losing its “moral” security as the global mechanism of trade exchange AND the effect of energy inflation eventually hit everything else in the US economy (e.g., it takes eight units of oil-based energy to produce, distribute and sell one unit of food energy). Thus, the US economic growth tapped its brakes.

People lose jobs in a slow down, of course, as deceptively recorded in unemployment statistics (based only on those who apply for unemployment benefits). But more so, new jobs do not get created to take up new work force coming of age (they do not even register on the unemployment benefits applications, having had no real-economy jobs). In effect, more and more people go to part-time work, and fewer and fewer people have excess cash for their non-essential consumption. Less consumption puts the economy into deeper recession as the US economy is 70% consumption-oriented, not production-oriented.

With many Americans, of middle and working classes, having more consumer debt to buy above their means, and now having to spend more of their earnings for food and energy, more excess consumption falls. To recap, consumption falls then sales fall. Less money in people’s pockets, less money people have to spend on the purchase of “real property” like land: Less demand for land, more supply of property; the more supply, cheaper price of land; cheaper price, less equity for “exuberant consumption.” Less equity, the more the personal cost of serving the debt on existing land mortgages and other debt; i.e., deeper recession.

A slowing economy would usually mean a lower interest rate to increase money supply for investment. Not so with an inflating dollar (too much money supply in the market; less value per dollar). And now, the danger threatens that the US dollar will for the first time, since the end of World War II 63 years ago, no longer be held by foreign governments as the “reserve currency.” The “reserve” aspects means the one currency in which every country invests itself in securities and cash-on-hand to protect the stability of global financial flows, in addition to make trade transactions easier. In short, interest rates had to rise to prevent an apocalyptic crash of the dollar’s status abroad and worthless at home.

The market mechanism of only giving home loans to “qualified” people (the biggest single investment most middle and working class people will ever make in their lives) who could weather a storm of a recession, inflation, and/or higher interest rates has backfired. The sub-prime mortgage markets, while a “small” percentage of total mortgage holders, had helped increase the demand for (and the inflated price of) homes. Yet, even a 5% section a multi-trillion dollar home equity market that defaults is as of today apparently enough to unbalance all of the other connections (see bullet points above) in the global financial credit markets. Why? Because all credit does is service debt.

How much US debt exist that needs payment and serving? All personal mortgages amounting to over \$20 trillion, all credit card debt of more than \$2.5 trillion (est.), the entire \$9.5 trillion US Federal (read: public; i.e. you and I) debt, the \$800 billion ANNUAL US trade deficit, all bonds and other stocks of multi-national corporations, all small cap preferred stocks in local communities, and the US deficit projected for Fiscal Year (FY) 2008 at \$150-175 billion (if lucky).

A Mythical Economy

But debt serving can be good business for some, as it is a two-way financial street for growth—growth based on waste, or “non-replicating consumption” (the Club term for “economic sewer items”). On this “street” there are pedestrians spending time off work in front of their houses and the family economy inside their mortgage-bought homes, shoppers consuming, shops and shopkeepers with credit lines out and liens and bills on their businesses, and perhaps a small manufacturing establishment of apparel where everyone works, with a capital investment in machinery financed by the bank on the corner. And walking the beat are police enforcing societies property rights, etc., and an armored car traveling to or from the bank. Inside this armored car is “good” debt, that which will be repaid, optimistically all but a fraction majority of the debt. It will also have a little of the “bad” debt from those who will default, or die, or from “non-replicating consumption.”

That armored car takes all the debt downtown to the bourse exchange, where the bank will auction off the loans to others, in return for interest on the bank stocks, but do so evenly to spread the risk. With the interest made the stock and from other economic activity, perhaps based on the sale of apparel to farmers, the retail sale of the shopkeepers, the buying of retirement plans by the workers, etc., the value of that “good” debt increases as the “bad” debt is lost (“consumed” by the economic “Big Foot” that doesn’t exist). The dollars of the debt remains stable a little due to “non-return” of the “bad” debt and addition of “re-renewable consumption,” but the investment of the whole increases as the stock holders in the bourse find more “wealth” elsewhere outside of this cozy little mythical economy: In this case, producing more cotton from farmers to produce more apparel to sell more apparel to pay more workers, AND then to hire the children of the workers to consume more apparel from the shopkeepers.

What is the missing factor in this analogy? From where does the “real” wealth grow? If it is land and what the earth can produce, then there is a finite point to the consumption. Is labor possible without something on which to labor? Is labor and resource exploitation possible without “capital” in the form of finance OR equipment? Even if one accepts that currency, in the form of gold and platinum, is a “fiction” of “rent,” the land is still the source of “Big Bang Theory” wealth, “In the beginning. . . .” Even synthetics like plastic and polyester, and carbon-based life forms, while durable to an extent, still come from some land-based resource. (In contrast, the Earth’s moon has no economy. It has land and resources [entirely exploitable “rent”] but no labor and capital to exploit it. It is a potential economy at this point]. An economy grows by the mix of “capital” (finance, even in the form of invested debt, is a mover of “motivated incentive”), “labor” (people), and Adam Smith’s “rent,” or land. It takes all three of these variations of the strategic destinies to form a viable economy, when added to human imagination. Loss of something is implied in economics, whether “bad” debt or “dead” land (or empty wells), or life expectancy. Somewhere, there is non-replicating “poop.”

The Next Shift

With the credit crisis in the US, American-based banks, especially the “big” ones, have taken write-offs off from their “bad” debt in sub-prime mortgage securities. These already amount to over a hundred billion dollars. It was a risk the entire economy made due to excess consumption, not broad-based production. The sub-prime mortgage crisis might reveal that Europe probably invested “west” in American mortgage securities, the “bad” debt. In December, the European Central Bank (ECB) led a consortium of banks to invest over US\$560 billion into largely short-term loans into the US financial markets. They most likely did this to shore up their own investments. They were loans perhaps because they could not afford to invest longer-term due to their own financial problems of “lost” value in their losing economies.

What about Asia?

Because of the correlation of their strategic destinies of physical geography (land position and resources, etc.), GDP potential (available capital), and demography (cheaper labor), Asia has benefitted from globalization via the US and European investment in their economies—"west" from America in search of cheaper resources/labor, etc. for higher profits. They have gained excess capital over a period of 35 years with oil and 62 years because of effects of World War II bringing their economies and societies out of archaic and ignorant agricultural tyrannies. Cheap land, cheap labor, cheap debt, all used wisely, made Asia's products excessively competitive, like America's after the Civil War ended in 1865: Asia sold more products cheaper, which still resulted in higher profits—i.e., more capital returned to them, as Europe gained from America until the "non-re-replicating consumption" of two world wars exhausted them and threw investment "west" from America.

Asia overall has invested itself heavily in US Treasury securities with US dollars gained from trade with any country (dollar as global medium). China alone holds at least \$1.5 trillion of the US Federal debt. The traditional logic behind this move is that the US Government, its currency and its Treasuries, are the safest investment of all since it can theoretically never default. That is the theory, and it might hold, even through a crisis. But there exists an underlying danger to America's national security and political independence.

Combining their profits, including interest from debt in which they invest, many Asian countries have developed Sovereign Wealth Funds, which are government-owned investment houses—an old "mercantilist" form of capital accumulation overthrown by Adam Smith's invisible hand. Where the ECB consortium offered loans, Asian Sovereign Wealth Funds with an estimated \$2 trillion fund and petro-billionaires (no estimates) have invested in owner shares of large US banks, buying part control of the bank while denying intent to exercise control for political purposes. This control is latent in possibilities, even subtly. As of this morning (January 22, 2008), Asian and European stock futures have fallen, and the US Federal Reserve Bank has made an emergency interest rate cut, with the effect of staving the loss of capital value in US exchanges.

Open markets this side of the International Date Line have slowly recovered. But the Shanghai market closed its Tuesday session down over 7%. The Japanese Nikkei closed down 5.5%. Will Asia recover this severe overall market hit? Will the Fed cut force a massive dumping of dollars and dollar-denominated securities? Will the Sovereign Wealth Funds of Asia with their excess capital buy more ownership of US assets, openly or subtly, before the dollar loses any more value if the Fed cut leads to an accelerated expectation of inflation? This would be the same sort of "reverse civilization flow" the US performed in Europe during and after the world war's, but Asia will do it for economics without the context of a war. Asian Sovereign Wealth Funds would hold their "Fulda Gap" against world financial collapse, the new threat of "Soviet tank armies" threatening globalization. What can Cepiaglobal Futures Report foresee?

Instead of buying the risky "bad" debt in the dollar and dollar-denominated US Treasuries, Asia might buy "good" debt: Bank shares (capital), corporate securities (labor), and "rents" (land or property). Second, the dollar dead? The euro only temporarily replacing the dollar? Perhaps Chinese renminbi will most likely emerge by the end of the year as "the" currency. As Europe develops ever more into a more Asiatic form of social and economic stagnation, and politically a socialist "soft" authoritarian system of government, does the US struggle between a model of European-style social-welfare democracy, and a militarized society geared for war to protect its power, or seek an alternative form of a dynamic "Post-Historical Political Economy." **(Subscribe for the next issue for the forecast of this new system).** Fifth, Asia over the next 5 years might struggle within itself between a new form of authoritarian-based mercantilism and a liberal free-market-form of democracy. Sixth, globalization might finally get to Africa in the next 5 years ("acceleration model") as Asian investment moves West (south: Remember South is West; North is East in this model) and the civilization-globalization process would continue. But what about the Club Fourth Strategic Destiny? WE hinted at it. We have one, and it fits the Post-Historical Political Economy. **Subscribe to read.**